UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 59532 / March 6, 2009

ADMINISTRATIVE PROCEEDING
File No. 3-13402

In the Matter of **M. Grant Bettingen,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE PROCEEDINGS PURSUANT TO SECTION 15(b) OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AS TO M. GRANT BETTINGEN**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 ("Exchange Act"), against M. Grant Bettingen ("Bettingen" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings arise out of Bettingen's failure to supervise Christopher Johndrow in connection with purported private placement offerings of the securities of Credit First, LLC and Credit First Income Plus, LLC (collectively, "Credit First") from January 2004 to December 2005.[2] During this time, Johndrow was associated with Grant Bettingen, Inc. ("GBI"),[3] a registered broker-dealer owned and managed by Bettingen. Johndrow violated Section 17(a) of the Securities Act of 1933 ("Securities Act") and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by misrepresenting to investors and instructing the sales agents he supervised to misrepresent to investors that they would receive at least 1% monthly returns of profits from Credit First's allegedly lucrative distressed debt business. Johndrow also violated Sections 5(a) and 5(c) of the Securities Act by offering and selling Credit First securities, and instructing the sales agents he supervised to offer and sell Credit First securities through general solicitations.

Bettingen failed reasonably to supervise Johndrow because he and GBI did not have a supervisory policy in place regarding the sale of securities in private placement offerings until November 2004, almost a year after Johndrow began selling Credit First securities. Even after Bettingen established a supervisory policy for private placement offerings, Bettingen failed to follow the firm's own procedures with respect to the Credit First offerings. Additionally, during the two years that Johndrow violated the securities laws, Bettingen failed to follow existing supervisory procedures with respect to conducting periodic inspections of Johndrow's office, which could have led to the prevention and detection of Johndrow's violations. Bettingen also knew of Johndrow's discharge by a former broker-dealer for "selling away" violations and failing to adequately supervise his branch, but Bettingen nevertheless failed to follow GBI's own policy requiring heightened supervision in such a case. As a result, Bettingen failed reasonably to supervise Johndrow within the meaning of Section (15)(b)(6)(A) of the Exchange Act.

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[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

[2] In December 2005, the Commission filed an action against Credit First and its principal, David Lund, for, among other things, making false representations to investors (the "Lund Action"). SEC v. Credit First Fund, LP, et al., CV05-8741-DSF (C.D. Cal. Dec. 15, 2005), Litigation Release No. 19497 (Dec. 16, 2005). In November 2006, Lund settled with the Commission, consenting to a permanent injunction, disgorgement, prejudgment interest, a civil penalty, and a five-year broker-dealer bar. Litigation Release No. 19497 (Dec. 20, 2006). On March 6, 2009, the Commission instituted a settled administrative proceeding against Johndrow in which Johndrow consented to a cease-and-desist order, disgorgement, prejudgment interest, a civil penalty, a three-year broker-dealer bar, and a five-year supervisory bar. Christopher J. Johndrow, Exchange Act Release No. 33-9012 (March 6, 2009).

[3] On March 6, 2009, the Commission instituted a settled administrative proceeding against GBI. Grant Bettingen, Inc., Exchange Act Release No. 34-59533 (March 6, 2009).

Respondent

1. **M. Grant Bettingen ("Bettingen")**, age 67, resides in Newport Beach, California. Bettingen was the president, compliance manager, and indirect owner of GBI until April 2008. Bettingen directly supervised Johndrow from January 2004 to January 2008. Bettingen currently holds Series 1, 3, 7, 24, 27, 55, and 63 licenses. Subsequent to the acquisition of GBI by Rubicon Financial Incorporated, Bettingen has been replaced as president and compliance manager and is now a minority owner of shares of GBI's parent company.

Other Relevant Entities and Persons

2. **Grant Bettingen, Inc. ("GBI")** is a registered broker-dealer (File No. 8-34790) based in Newport Beach, California since 1985. At the time of the misconduct, GBI had five branch offices, four in California and one in New York, as well as an unregistered office location in Florida. Additionally, it had an unregistered office location in Orange County, California until December 2005. GBI was owned by the Grant Bettingen Trust, of which M. Grant Bettingen was the sole trustee. During the relevant period, GBI had 37 registered representatives and approximate annual revenues of $4 million. GBI conducts a general securities business which includes equities, fixed income securities, mutual funds, and insurance products. On June 2, 2008, GBI was acquired by Rubicon Financial Incorporated, a publicly held company.

3. **The Credit First Entities** are comprised of Credit First Fund, L.P., Credit First, LLC, and Credit First Income Plus, LLC (collectively, the "Credit First Entities") which were formed in February 2001, April 2003 and July 2004, respectively. These companies raised at least $10.7 million from 2002 to December 2005 in private placement offerings purportedly exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D. GBI sold approximately $3.1 million of these securities beginning in January 2004.

4. **Christopher J. Johndrow ("Johndrow")**, age 44, resides in Hallandale Beach, Florida. He holds Series 7, 24, and 63 licenses, and from 1991 through the present, has been associated with thirteen different broker-dealers. One of the prior firms terminated Johndrow for "selling away" violations and failing to supervise adequately his registered representatives. From January 2004 to January 2008, Johndrow was associated with GBI.

Background

5. Credit First was in the business of purchasing distressed debt and purportedly generating profits by selling or collecting on the debt. Johndrow had been selling securities of the Credit First Entities since December 2002 through two other broker-dealers. He was therefore very familiar with Credit First and its principal, Lund. Johndrow and Lund had a close business relationship and had shared offices since February 2002. The Credit First Entities raised approximately $10.7 million from 186 investors nationwide from February 2001 to December 2005. As of December 2005, however, there was little money left to return to investors.[4]

[4] The Credit First entities raised approximately $10.7 million from investors and paid about $11.9 million to acquire the defaulted debt portfolios. Lund also distributed approximately $6.1 million to investors.

GBI's Santa Ana Office and Johndrow's Sale of Credit First Securities

6. GBI accounted for $3.1 million of the sales of Credit First securities. In January 2004, Bettingen hired Johndrow to open and supervise an office location in Santa Ana, California (the "Santa Ana Office") to primarily sell Credit First securities. During 2004 – 2005, the Santa Ana Office had one registered and about four unregistered salespersons, all supervised by Johndrow.

7. Johndrow used pre-purchased lead lists to cold-call potential investors. Johndrow also distributed the pre-purchased lead lists to other salespersons at the Santa Ana Office, which they used to cold-call potential investors.

8. Johndrow trained the Credit First salespersons by having them listen in on his sales calls. In particular, Johndrow instructed the salespersons to emphasize to investors that Credit First was an income-based investment. The salespersons sent prospective investors copies of Credit First's private placement memorandum and the subscription agreement after making an initial telephone contact, and then telephoned them a second time approximately one week later to confirm that they received the written materials and answer any questions. They then referred interested investors to Johndrow or Lund, who helped them complete the necessary paperwork and close the deal.

9. GBI received a 10% sales commission on the sales of Credit First securities. GBI retained 25% of the commission and paid the remaining to the pertinent licensed salespersons. Johndrow also received a 5% override on all commissions earned by the licensed salespersons in the Santa Ana Office. During the relevant period, Johndrow earned $270,720 in commissions, and GBI earned $88,675 in commissions.

10. Pursuant to a contractual arrangement with GBI, Johndrow paid all of the Santa Ana Office's operating expenses including the administrative assistant's salary, and rent, utilities, and postage. The Santa Ana Office and Credit First, both, operated from the same business location. Accordingly, Johndrow paid Lund for the rent and other overhead.

Johndrow's Misrepresentations to Investors

11. Johndrow orally represented to prospective investors that Credit First would provide them a monthly income and they could expect to receive at least 1% per month in profits. Johndrow also told the salespersons he supervised to make similar representations to investors during sales calls.

12. Johndrow knew or was reckless in not knowing that Credit First did not make any monthly returns of income to its investors. The financial statements of the Credit Fund Entities for the years 2002 to 2004 showed that they operated at a net loss and were only returning principal to investors. Lund made these financial statements available to Johndrow for his review during the entire time Johndrow was selling these securities, i.e., since December 2002. Johndrow failed to

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Approximately $960,000 remained in the Credit First entities' bank accounts when the Commission brought the Lund Action in December 2005.

review the financial statements, or perform an equivalent form of due diligence to ensure that he and his sales agents were making accurate representations about the returns to investors when they recommended securities of Credit First.

Bettingen's Failure to Supervise Johndrow

13. Bettingen failed reasonably to supervise Johndrow. Bettingen directly supervised Johndrow and had the powers traditionally associated with a supervisor – he hired Johndrow and had the authority to fire him. Bettingen was also responsible for ensuring that GBI established adequate written supervisory procedures and a system for applying those procedures.

No Written Supervisory Procedures for Private Placement Offerings

14. Bettingen and GBI adopted a Written Supervisory Procedures Manual (the "January Manual") when GBI began selling Credit First securities in early 2004. However, written supervisory procedures for private placement offerings were added only in the November 2004 Manual (the "November Manual"). Nevertheless, GBI sold Credit First shares for eleven months starting in January 2004 without the written supervisory procedures necessary to prevent and detect Johndrow's violations of the securities laws in connection with the private placement offerings of Credit First securities to customers.

15. Even after adopting the November Manual, Bettingen failed to follow its procedures. The November Manual required Bettingen to perform due diligence on an ongoing basis for GBI's private placement offerings. The procedure required Bettingen to review all of the offering materials and execute an agreement with the issuer. It also required Bettingen to document his efforts by maintaining a file comprised of, among other things, the issuer agreement, an issuer representation letter, and the offering materials. Finally, it required Bettingen to review the issuer's financial statements for the past twelve months.

16. Bettingen failed to follow any of these due diligence procedures with respect to the Credit First securities recommended and sold by Johndrow to customers. Bettingen merely leafed through Credit First's private placement memoranda and held one or two meetings with Johndrow to discuss the offering. In one such meeting, Johndrow represented to Bettingen that Credit First returned 1%-3% monthly distributions of profits to investors. Bettingen did nothing, however, to verify Johndrow's representations, including reviewing Credit First's financial statements for the past twelve months, which would have revealed that Credit First was returning capital to its investors. Bettingen's failure to follow these due diligence procedures for the Credit First securities is particularly egregious in light of other supervisory failures by Bettingen.

17. Moreover, Bettingen failed to follow the November Manual's procedure regarding cold-calling and private placement offerings. The November Manual states in pertinent part: "A key element of private placement exemptions . . . is that there may be no general solicitation of the issue. This includes . . . [n]o cold calling of potential offerees." Not surprisingly, Johndrow's cold-calling of potential investors in Credit First continued unabated for almost two years.

Bettingen Failed to Follow Another Supervisory Procedure

18. Another more general written supervisory procedure was specified in the January Manual and the November Manual (collectively, the "Manuals"). Most significantly, the January Manual contained a written policy requiring Bettingen to make quarterly compliance visits to non-branch business locations, like the Santa Ana Office. The January Manual further required Bettingen to documents those visits.

19. Despite these clear written directives, Bettingen never made a quarterly compliance-related visit to the Santa Ana Office. The only compliance-related visit to the Santa Ana Office was made by another GBI executive in July 2005, who did detect the cold-calling at the Santa Ana Office and informed Bettingen about it. However, this occurred well after the bulk of Credit First securities were sold. Furthermore, Bettingen did not do anything to stop the cold-calling. Bettingen may have visited the Santa Ana Office one or two times, but those visits were made for sales purposes and to discuss general business issues with Johndrow. Indeed, Bettingen delegated the majority of his day-to-day "on-site" supervisory responsibilities to Johndrow, except for the quarterly visits. This was unreasonable because it left Johndrow to supervise himself. Had Bettingen followed the supervisory procedures, or followed up on the report of cold-calling from the July 2005 visit, it would have given him the opportunity to detect and prevent the securities antifraud and registration violations by Johndrow.

Bettingen Did Not Respond Adequately to Indications of Irregularity

20. When Johndrow joined GBI in 2004, Bettingen did identify him as a broker in need of heightened supervision; however, he failed to implement the applicable procedure set forth in the Manuals. The procedure applied when a registered representative met one or more of the criteria enumerated in the Manuals, including employment with three or more broker-dealers in the past five years and being discharged or permitted to resign from a former employer where the termination appeared to involve a significant sales practice. Here, Johndrow was associated with five different broker-dealers in the three years prior to his association with GBI, and he was discharged by one of these firms for "selling away" violations and failing to supervise his registered representatives. GBI's heightened supervision procedure required, among other things, a special supervision memorandum, extra training or continuing education in areas subject to special supervision, and assignment of the registered representative to a "mentor." Bettingen failed to establish such a heightened supervisory program for Johndrow even though he knew that GBI had represented to FINRA (then the NASD) that such a program was established for Johndrow. A FINRA representative had identified Johndrow as a registered representative in need of special supervision as part of its tracking and compliance program. If Bettingen had established heightened supervision over Johndrow, he would have likely prevented and detected Johndrow's securities law violations.

Legal Analysis

21. As a result of the conduct described above, Johndrow violated Sections 5(a), 5(c), and 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

22. Section 15(b)(4)(E) of the Exchange Act requires broker-dealers reasonably to supervise persons subject to their supervision, with a view toward preventing violations of the federal securities laws. See, e.g., Dean Witter Reynolds, Inc., Exchange Act Rel. No. 46578 (October 1, 2002). The Commission has emphasized that the "responsibility of broker-dealers to supervise their employees by means of effective, established procedures is a critical component in the federal investor protection scheme regulating the securities markets." Id. Section 15(b)(4)(E) of the Exchange Act provides for the imposition of a sanction against a broker or dealer who "has failed reasonably to supervise, with a view to preventing violations of the securities laws, another person who commits such a violation, if such other person is subject to his supervision." Section 15(b)(6)(A)(i) parallels Section 15(b)(4)(E) and provides for the imposition of sanctions against persons associated with a broker-dealer.

23. As a result of the conduct described above, Bettingen failed reasonably to supervise Johndrow within the meaning of Section 15(b) of the Exchange Act when he failed to supervise Johndrow with a view to preventing and detecting his violations of the federal securities laws.

IV.

In view of the foregoing, the Commission deems it appropriate, and in the public interest, to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 15(b) of the Exchange Act, it is hereby ORDERED that**:**

A. Respondent Bettingen be, and hereby is, barred from association in a supervisory capacity with any broker or dealer for a period of three (3) years with the right to reapply for association in a supervisory capacity after three (3) years to the appropriate self-regulatory organization, or if there is none, to the Commission;

B. Any reapplication for association by Respondent Bettingen will be subject to the applicable laws and regulations governing the reentry process, and the reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission Order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission Order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission Order.

C. IT IS FURTHER ORDERED that Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of $35,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Bettingen as a Respondent in these proceedings, the

file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Michele Wein Layne, Division of Enforcement, Securities and Exchange Commission, 5670 Wilshire Blvd., Suite 1100, Los Angeles, CA 90036.

By the Commission.

Elizabeth M. Murphy
Secretary